

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

In the Matter of)

PUBLIC UTILITIES COMMISSION)

Instituting a Proceeding to Investigate)
Distributed Generation in Hawaii.)
_____)

Docket No. 03-0371

PUBLIC UTILITIES
COMMISSION

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FILED

KAUAI ISLAND UTILITY COOPERATIVE'S RESPONSES TO THE
HAWAII RENEWABLE ENERGY ALLIANCE'S INFORMATION
REQUESTS ISSUED JULY 28, 2004

AND

CERTIFICATE OF SERVICE

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COOPERATIVE

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COMES NOW, KAUAI ISLAND UTILITY COOPERATIVE, by and through its attorneys, Oshima Chun Fong & Chung, hereby submits its Responses to the Hawaii Renewable Energy Alliance's Information Requests issued July 28, 2004.

DATED: Honolulu, Hawai'i, August 18, 2004.



ALAN M. OSHIMA
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Attorneys for KAUAI ISLAND UTILITY
COOPERATIVE

**KAUAI ISLAND UTILITY COOPERATIVE'S RESPONSES TO THE
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HREA-KIUC-T-1-IR-1

On page 12, you describe the potential impacts of DG in terms of a "slower build up of equity, reduced margins and ultimately a reduction in patronage capital retirements to the members." To a lay person, this sounds a lot like the potential impacts of DG to an investor-owned utility and its shareholders. How would you contrast the challenges/opportunities of KIUC's operation as a cooperative in meeting the needs of its members with the challenges/opportunities of KIUC's operation if as an IOU in meeting the needs of its shareholders?

Response: The single major difference of an electric cooperative vs. an investor owned electric utility is that the members are the shareholders, and as such their respective interests and objectives in the end are one and the same. In contrast, for an IOU, the shareholders are an entirely different entity, and as such, the interests and objectives of the shareholders (e.g., increased revenues) may often contradict and conflict with the interests and objectives of the customers/ratepayers (e.g., lower rates).

Sponsor: Mike Yamane
N. Richard Friedman

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HREA-KIUC-T-2-IR-1

HREA concludes from your testimony that the introduction of DG to KIUC's grid is an unnecessary complication at this time and could result in negative impacts to the system and KIUC's members. Is this an incorrect conclusion? If so, why?

Response: This is an incorrect statement. As noted in KIUC-T-2 (pages 24-26), certain forms of DG may offer benefits to KIUC and its members, including lower air emissions, T&D construction deferral, and increased system security; and customer benefits as well (see KIUC-T-2, page 20, lines 13-17). KIUC believes that if DG is to be introduced to KIUC's grid, utility ownership should be allowed and even encouraged on Kauai.

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HREA-KIUC-T-2-IR-2

On page 2 (line11), have you identified specific locations where there are lightly load feeders? If so, where are they?

Response: No. KIUC has not identified specific locations of lightly loaded feeders. However, KIUC notes that its statement to "lightly loaded feeders" as it pertains to its feeders was made in the context of the feeder loads experienced by many utilities on the mainland. In that context, KIUC believes its feeders are lightly loaded in comparison, which is largely due to the infrastructure build out that occurred after Hurricane Iniki in 1992.

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HREA-KIUC-T-2-IR-3

On page 4 (line 9), are you making the argument that a customer that leaves the system should pay an exit fee? On the other hand, wouldn't it be more appropriate to refund any "hook-up" fees that the customer paid to enter (join) the system?

Response: Hook-up fees are generally imposed for the engineering and other costs incurred by KIUC to connect a customer to KIUC's system. They cover expenses that occur prior to, during, or immediately after connecting a customer. As such, they should not have to be refunded if that customer later decides to disconnect from the system.

At this time, KIUC has not determined if exit fees would apply and has no policy in place as to how and to whom such fees would apply. KIUC's mention of an exit fee is purely to present this as an option to recover any stranded costs that may be incurred if a customer were to adopt non-emergency generation. KIUC does not intend at this time to apply any future exit fees to customers who wish to terminate their service from KIUC for any other reason provided that they have given appropriate notice of termination of service as dictated by the terms and conditions of the KIUC service agreement.

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N. Richard Friedman

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HREA-KIUC-T-2-IR-4

On page 21 - 23, regarding the impacts of non-utility vs. utility investments in DG (and especially CHP), while there are potential rate impacts due to revenue losses from installation of non-utility DG, would not there also be rate impacts if the utility installed and rate-based DG? Have you compared the potential rate impacts for both cases, i.e., non-utility vs. utility-owned DG?

Response: As an electric cooperative, it is KIUC's belief that its future rate studies will be based upon financial indicators required by its lenders (such as equity build-up and TIER) and not by the traditional rate-of-return analysis utilized for investor-owned utilities. By having the ability to evaluate DG on a case-by-case basis and then owning and operating DG systems when beneficial to KIUC's members/customers, KIUC will be able to ensure that DG has as positive an impact to its members/customers as possible.

KIUC has not performed any studies evaluating potential rate impacts of utility vs. non-utility owned DG.

Sponsor: Joe M^cCawley
N. Richard Friedman

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HREA-KIUC-T-2-IR-5

On page 25, can you provide some examples of how "DG can complicate system operations and offer unexpected impacts affecting system stability and personnel and customer safety?"

Response: Installing a DG on a distribution line changes the characteristics of this line from a radial system (one electrical source originating from a distribution substation) to a looped system (multiple electrical sources on different sections of the line). Changing the characteristics of the line in such a manner will raise the level of complexities involved for switching programs, line maintenance, and relay protection. For example, line personnel and system operators will need to treat this line differently from the rest of the distribution system due to the DG. Also, if not done properly, synchronizing DG back into the electrical system after a fault can cause system instability and voltage excursion. While these issues are common for a transmission system, they are very unique to a distribution system.

Sponsor: Joe M^cCawley
N. Richard Friedman.

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